

Attachment II



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Texas Households Would See Telephone Rates Rise \$7-11 Under Industry Rate Hike Proposal

AUSTIN, TX -- Federal and state regulators should reject a misguided attempt by the telephone industry to raise residential phone rates up to \$11 per month for basic services, plus additional surcharges, three consumer groups said today.

The Office of Public Utility Counsel (OPC), the American Association of Retired Persons (AARP) and Consumers Union said the industry plan would impose a burden on residential ratepayers who are least able to pay, increase rates for the majority of working families, and subsidize high-volume and business users. Moreover, the groups charged the rate hike request runs counter to the intent of the new telecommunications law and to the principle of universal phone service advanced by the legislation. The three groups, along with the Consumer Federation of America (CFA) have filed comments with the Federal Communications Commission opposing the rate changes.

"The proposals to raise monthly rates for basic services are not only contrary to the law, they are also bad public policy and bad universal service policy," said Suzi McClellan, public counsel with the Office of Public Utility Counsel. "The rate increases proposed by the local companies would wipe out for years any potential price reductions that were promised to flow from the new telecommunications law," McClellan added.

Southwestern Bell and GTE -- the companies providing local service to the vast majority of Texans -- support the proposal. Long distance service providers, including AT&T, Sprint, and LDDS also support the proposal. Among the major long distance companies, only MCI has not endorsed the plan.

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The industry proposal was made in comments on universal telephone service requested by the Federal Communications Commission. The FCC asked interested parties to define "affordable" phone service because maintaining affordable service is one of the goals of the Telecommunications Act of 1996 recently enacted by Congress. In their comments, Southwestern Bell defined affordable as 1 percent of the state median income. Median income refers to the midpoint of family incomes in the state, in other words, 50 percent of Texas families have incomes below the median and 50 percent have incomes above the median.

The impact of Southwestern Bell's proposal on Texas is as follows:

<u>SWB</u> <u>Rate</u> <u>Group</u>	<u>No. of Access</u> <u>Lines (Sample Cities)</u>	<u>Total</u> <u>Cost*</u> <u>Today</u>	<u>Maximum Rate</u> <u>Proposed by SWB</u> <u>(1% of median income)</u>	<u>Rate</u> <u>Increase</u>
1	1 - 8,000 (Columbus, Elgin)	\$14.70	\$24.94	\$10.24
2	8,001 - 30,000 (Brenham, Corsicana)	\$14.90	\$24.94	\$10.04
3	30,001 - 60,000 (Abilene, Brownsville)	\$14.27	\$24.94	\$10.67
4	60,001 - 200,000 (Amarillo, Corpus Christi)	\$16.01	\$24.94	\$ 8.93
5	200,001 - 400,000 (Austin, El Paso)	\$16.00	\$24.94	\$ 8.94
6	400,001 - 800,000 (Fort Worth, San Antonio)	\$16.48	\$24.94	\$ 8.46
7	800,001 - 1.5 million (Dallas)	\$17.64	\$24.94	\$ 7.30
8	1.5 million - and over (Houston)	\$17.26	\$24.94	\$ 7.68
GTE/Contel		\$13.90	\$24.94	\$11.04
Statewide Avg.		\$14.57	\$24.94	\$10.37

*Total Cost includes all monthly charges: the basic rate, \$3.50 subscriber line charge, 911 fee, other miscellaneous fees, and state and local taxes.

Southwestern Bell has also suggested a surcharge be placed on bills to pay off the company's plant. This amounts to approximately \$3 per line per month for five years. It would appear that the surcharges do not fall under SWB's proposed maximum rate. Thus, the rate increase would be \$3 higher than depicted above.

Rates for Southwestern Bell and GTE have been capped under the state telecommunications law passed by the Texas Legislature in 1995. However, the companies seek rate increases through additions to the Subscriber Line Charge, and additional surcharges which do not fall under the state's capped rate.

The consumer groups also refute claims by the phone companies that the increase in basic service will be offset by a decrease in prices of non-essential services. Non-essential services include Call Forwarding, long-distance calls, and services that are subject to competition. Only high volume and business users will benefit while residential ratepayers will be at the end of the line for any price reductions.

"Even if some rates are lowered to offset rate increases, the majority of individual residential ratepayers are not likely to see a neutral outcome in their bills," said McClellan. "To the contrary, they are likely to experience net increases in their bills."

The net effect would be families with incomes below approximately \$30,000 will subsidize the commercial users and families with income above \$67,000. This would occur because the wealthiest consumers use twice as much of the non-essential services as working families and families on limited fixed incomes (i.e. families with incomes of less than \$30,000). Traditionally, these households are headed by persons under 25, over 65, and by females.

"The households that suffer the net increase in their bills will be the most in need," said Roy Baker, utility specialist with AARP. "Senior citizens and others on fixed incomes will be particularly hard hit. Imposing rate increases on this group simply defies logic and runs counter to the goal of universal service."

Southwestern Bell and other companies also propose the expansion of the lifeline program -- designed to assist poverty-level families -- in order to cushion some of the blow. However, the plan would not provide relief for working families. It would leave about 2 million households in Texas who would be paying substantially more than 1 percent of income ineligible for the program.

Texas leads the nation in the number of households without phone service. In Harlingen, for example, 16 percent of households lack phone service, while in Houston the figure is 8 percent. Affordability of phone service and household income are the two primary factors that influence this trend.

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Local telephone companies are also asking for rate increases at the state level. PacTel (recently acquired by Southwestern Bell's parent company, SBC) and GTE in California have asked California regulators for \$4.2 billion rate increase. The State of Washington recently rejected an attempt by US West to double local rates in that state.

At the heart of the matter is who will pay for the "local loop," meaning the lines on the telephone poles and the line from the pole to a home or business. The loop is used to provide all telecommunications services -- local, long distance, and enhanced services.

The companies favoring the rate hike contend the loop has been subsidized for years by the other services that use it. They say that under a new competitive environment, the costs of the loop should be borne 100 percent by the basic, local service. But the consumer groups strongly disagree, saying the users of all telecommunications services should bear a reasonable share of the costs of the loop. "Service providers should not use facilities without paying for them. If they are permitted to do so, most residential ratepayers will pay the price while service providers and intensive users avoid their fair share of the costs," said Janee Briesemeister, senior policy analyst with the Southwest Regional Office of Consumers Union.

(NOTE TO REPORTERS: Copies of two sets of comments submitted by the groups to the Federal Communications Commission are available by calling (512) 477-4431.)

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